

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 15 – RESTRICTIONS, RESERVES, DESIGNATIONS, AND CHANGES IN EQUITY

Net Assets

The government-wide and proprietary fund financial statements utilize a net assets presentation. Net assets are classified into three categories:

Invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation and reduced by outstanding balances of bonds, notes and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets results when constraints are placed on net asset use either by external parties or by law through constitutional provision or enabling legislation.

Unrestricted net assets consists of net assets that do not meet the definition of the two preceding categories.

Restricted Net Assets – Business-type Activities

\$ 263,644,732	Public Transportation Enterprise restricted for future construction projects (\$238,318,431) and debt service (\$25,326,301).
78,383,158	Water Quality Enterprise restricted for debt service (\$73,233,101) and litigation settlements (\$5,150,057).
17,133,585	King County International Airport Enterprise restricted for future construction projects.
1,300,385	Radio Communications Enterprise restricted for construction.
<u>198,280</u>	Sewer Utility Enterprise bond restrictions.
<u>\$ 360,660,140</u>	Total Business-type Restricted Net Assets

Reserves and Designations

King County records two general types of reserves. One type indicates that a portion of the fund balance is legally segregated for a specific future use; the other type indicates that a portion of the fund balance is not available for appropriation. Designated fund balances represent tentative plans (including those plans prescribed by local ordinance) for future use of financial resources.

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NOTE 15 – CONTINUED

Following is a list of all reserves and designations used by King County and a description of each:

Reserved Fund Balances

	<u>General Fund</u>	<u>Public Health Fund</u>	<u>Special Revenue</u>	<u>Nonmajor Debt Service</u>	<u>Capital Projects</u>
Reserved for:					
Inventory	\$ -	\$ 1,904,264	\$ -	\$ -	\$ -
Prepayments	21,116	-	4,084,689	-	-
Encumbrances	4,930,337	1,250,866	21,503,223	-	71,566,727
Advances to other funds	300,000	-	-	-	-
Animal services	392,096	-	-	-	-
Crime victim compensation program	1,099,902	-	-	-	-
Drug enforcement program	144,028	-	-	-	-
Antiprofitteering program	393,199	-	-	-	-
Dispute resolution centers	113,896	-	-	-	-
Inmate welfare	540,610	-	-	-	-
Laptop replacement	542,059	-	-	-	-
Real property title assurance	25,152	-	-	-	-
Managed care risk pool	-	500,000	-	-	-
Training and equipment for Medic One	-	280,382	-	-	-
Youth sports facilities grant endowment	-	-	646,257	-	-
PFD stadium bond debt service	-	-	-	10,667,979	-
PFD stadium bond debt service - escrow	-	-	-	9,274,063	-
Total reserved fund balances	<u>\$ 8,502,395</u>	<u>\$ 3,935,512</u>	<u>\$ 26,234,169</u>	<u>\$ 19,942,042</u>	<u>\$ 71,566,727</u>

Reserved for inventory – segregates a portion of fund balance in the amount of the inventory of supplies carried as an asset; it represents resources that are not available and spendable for the fund's current operations.

Reserved for prepayments – segregates a portion of fund balance equal to the asset prepayments; it does not represent available, spendable resources for the fund's current operations.

Reserved for encumbrances – segregates a portion of fund balance for commitments made for goods or services that have not been delivered or completed as of year-end. The budget for these commitments will be reestablished in the new year without reappropriation.

Reserved for advances to other funds – segregates a portion of fund balance for advances to other funds (the noncurrent portion of interfund loans receivable) to indicate that they do not constitute available financial resources and are not available for appropriation.

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Reserved for animal services – segregates a portion of fund balance to indicate that resources are legally restricted solely for the purpose of funding the animal services program, which promotes and enforces the humane treatment of the animal population of King County.

Reserved for crime victim compensation program – segregates a portion of fund balance to indicate that resources are legally restricted to the crime victim compensation program and are not spendable resources for other expenditures.

Reserved for drug enforcement program – segregates a portion of fund balance to indicate that resources are legally restricted solely for the purposes of enhancing enforcement of the Uniform Controlled Substances Act, chapter 69.50 RCW, or other laws regulating controlled substances, including training, equipment, and operational expenses.

Reserved for antiprofitteering program – segregates a portion of fund balance to indicate that resources are legally restricted solely for the purposes of the investigation and prosecution of any offense included in the definition of criminal profiteering set forth in chapter 9A.82 RCW.

Reserved for dispute resolution centers – segregates a portion of fund balance to indicate that resources are legally restricted solely for the purpose of funding dispute resolution centers.

Reserved for inmate welfare – segregates a portion of fund balance to indicate that resources are legally restricted solely for the purpose of the welfare of inmates held by the Department of Adult and Juvenile Detention.

Reserved for laptop replacement – segregates a portion of fund balance to indicate that resources are legally restricted solely for the purpose of replacing laptop computers used by police officers.

Reserved for real property title assurance – segregates a portion of fund balance to indicate that resources are legally restricted solely for the purpose of the payment of damages to any person sustaining loss or damage, through any omission, mistake, or misfeasance of the registrar of titles, or of any examiner of titles, or of any deputy, or by the mistake or misfeasance of the clerk of the court, or any deputy, in the performance of their respective duties under the provisions of chapter 65.12 RCW Registration of Land Titles (Torrens Act).

Reserved for managed care risk pool – Seattle-King County Department of Public Health is affiliated with Blue Cross/Carenet and the Community Health Plan of Washington (CHPW) in order to provide care to approximately 8,000 Healthy Options Managed Medicaid enrollees. For CHPW enrollees, the Health Department shares a portion of the risk for the continuum of care to those individuals and families. In addition to the risk of providing primary care within a fixed capitation (a fixed payment per enrollee per month, independent of the primary care utilization), the Health Department is also at risk for provision of specialty services and hospital care. Specifically, the Health Department is responsible for a portion of losses not covered by the specialty and hospital pools held by the plans or by reinsurance for extraordinary costs. In order to plan for those potential losses, maintenance of a risk reserve pool is required.

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Reserved for training and equipment for Medic One – segregates a portion of fund balance to indicate that the use of donations from individuals to Medic One are restricted to equipment purchases and training for paramedics and medical services officers.

Reserved for youth sports facilities grant endowment – segregates a portion of fund balance pending a decision to establish a separate Permanent Fund for an endowment. The investment income from the endowment will be used exclusively to supplement the Youth Sports Facilities Grant Fund for the acquisition and operation of outdoor sports fields for youth.

Reserved for PFD stadium bond debt service – segregates the revenues collected by the County that are earmarked for future debt service payments on the 1997A-1, 1997B, 1997D, and 2002 Refunding tax exempt Baseball Stadium bond issues.

Reserved for PFD stadium bond debt service – escrow – segregates the revenues collected by the County that are earmarked for future debt service payments on the 1997A-2 and 1997C taxable Baseball Stadium bond issues.

Designated Fund Balances

	<u>General Fund</u>	<u>Public Health Fund</u>	<u>Nonmajor Special Revenue</u>	<u>Capital Projects</u>
Designated for:				
Equipment replacement	\$ -	\$ -	\$ 3,192,380	\$ -
Capital projects	3,176,234	-	225,418	-
FEMA match	-	-	119,607	-
Insurance/inpatient	-	-	2,725,581	-
Reappropriation	399,000	939,894	155,000	-
Net unrealized gains	1,119,116	-	225,909	175,936
Contingencies	15,000,000	-	-	-
Children and family services program	131,700	-	-	-
Total designated fund balances	<u>\$ 19,826,050</u>	<u>\$ 939,894</u>	<u>\$ 6,643,895</u>	<u>\$ 175,936</u>

Designated for equipment replacement – indicates that a portion of fund balance has been earmarked for the replacement of equipment.

Designated for capital projects – identifies a portion of fund balances in the General and Special Revenue Funds equal to the budget for capital projects not expended and expected to be reappropriated for the coming year. The projects may be decreased, increased, and changed in scope by the County Council in their budget deliberations.

Designated for FEMA match – identifies a portion of fund balance in the Flood Control Zone Districts Fund that has been designated for future use as a local match for federal and state grants in the event of a federally-declared flood disaster.

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Designated for insurance/inpatient – sets aside funds used to cover inpatient adjustments, outpatient tier benefits and closeout expenditures if the King County Regional Services Network (KCRSN) becomes insolvent. The KCRSN is funded primarily by capitated payment and consolidated revenues. The capitated revenue for Prepaid Health Plan (PHP) services is based on the number of Medicaid recipients in King County. The consolidated revenues are expended for the PHP services for adults and children, as well as other services required to support people with mental illness in King County.

Designated for reappropriation – used at year-end for lapsed appropriations for which special requests have been made to obtain reappropriation in the coming year.

Designated for net unrealized gains – segregates the portion of fund balance representing unrealized gains on investment holdings. GASB Statement No. 31 now requires governments to report investments at fair values and to charge investment income for the change in fair value of investments at the end of the year.

Designated for contingencies – segregates a portion of fund balance to indicate that resources have been earmarked by county ordinance for the following: (1) maintenance of essential county services in the event that General Fund revenue collections in a given fiscal year are less than 97 percent of adopted estimated revenues; (2) payment of legal settlements relating to the collection of past General Fund revenues; (3) payment of catastrophic losses in excess of the Insurance Fund reserve and all other fund balances; and (4) requests for priority capital maintenance projects if and when the contingencies reserve exceeds \$15 million.

Designated for children and family services programs – segregates a portion of fund balance to indicate that resources have been earmarked by county ordinance to provide children and family services to the residents of King County.

Management Plans for Internal Service Fund Unrestricted Net Assets

The following Internal Service Funds have unrestricted net assets that have been earmarked by county management for a specific future use as of December 31, 2003:

Information and Telecommunication Services Fund – Data Processing Subfund – \$525,000 for the replacement of electronic data processing equipment.

Information and Telecommunications Services Fund – Telecommunications Subfund – \$1,640,302 for the replacement of telecommunications equipment.

Insurance Fund – \$14,886,454 for catastrophic losses. The catastrophic loss reserve will be used to respond to large, non-recurring losses exceeding \$1 million per incident.

Motor Pool Equipment Rental Fund – \$8,271,622 for the replacement of rental equipment.

Printing/Graphic Arts Services Fund – \$150,000 for the replacement of printing equipment.

Public Works Equipment Rental Fund – \$9,492,214 for the replacement of rental equipment.

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Wastewater Equipment Rental Fund – \$4,507,644 for the replacement of rental equipment.

Restatements of Beginning Balances

Arts and Cultural Development Fund – Programs previously administered by the Office of Cultural Resources within County operations are now the responsibility of the Cultural Development Authority of King County (CDA), a discretely presented component unit of the County. As part of the agreement, King County transferred the 2002 fund balance and related assets and liabilities of the Arts and Cultural Development Fund in the amount of \$9,201,744 to the CDA effective January 1, 2003. Beginning in 2003, the Arts and Cultural Development Fund began serving as the clearing fund through which the county will transfer revenues to the CDA.

Clark Contract Administration Fund – The Clark Contract Administration Fund had two adjustments to its January 1, 2003, fund balance: 1) an adjustment for unreported prior period expenditures in the amount of \$739,000; and 2) an adjustment for unreported prior period unrealized gains on investments in the amount of \$243,214.

Logan/Knox Settlement Fund – In 2002 the Logan/Knox Settlement Fund paid the employee contribution portion of the PERS liability through an expenditure account. The fund was established to receive and pay the employee PERS contribution portion through a receivable account. A prior period expenditure adjustment in the amount of \$588,069 was recorded to correct the accounts receivable and fund balance of the Logan/Knox Settlement Fund.

Government-wide Governmental Activities – Certain land acquired in prior years was not reported in 2002 resulting in the understatement of the ending 2002 Governmental Activity land and Government-wide Governmental Activities net assets. A restatement of 2003 beginning land and net assets in the amount of \$8.8 million corrects this error.

	Governmental Activities	Nonmajor Special Revenue Funds	Arts and Cultural Development Fund	Clark Contract Administration Fund	Logan/Knox Settlement Fund
Net Assets/Fund Balance - December 31, 2002	\$ 1,033,913,979	\$ 88,411,793	\$ 9,201,744	\$ 961,650	\$ 1,459,782
Transfer to the newly created CDA					
Transfer of cash	(9,201,744)	(9,201,744)	(9,201,744)	-	-
Transfer of outstanding debt	6,025,432	-	-	-	-
Prior period expenditures	(150,931)	(150,931)	-	(739,000)	588,069
Prior period unrealized gain on investments	243,214	243,214	-	243,214	-
Prior period capital asset acquisitions	8,796,978	-	-	-	-
Net Assets/Fund Balance - January 1, 2003 (Restated)	<u>\$ 1,039,626,928</u>	<u>\$ 79,302,332</u>	<u>\$ -0-</u>	<u>\$ 465,864</u>	<u>\$ 2,047,851</u>

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NOTE 15 – CONTINUED**Component Unit – Harborview Medical Center (HMC)**Restricted Net Assets

Restricted expendable net assets – The \$47,566,939 consists of investments restricted for capital use and by donor. Access to investments restricted for capital use is restricted by King County for designated capital projects. Investments restricted by donor represent assets that are restricted by creditors, grantors, or contributors external to the HMC.

Restricted nonexpendable net assets – The \$520,963 consists of permanent endowments by donors.

Component Unit – Cultural Development Authority of King County (CDA)Beginning Net Assets

Programs previously administered by the Office of Cultural Resources within County operations are now the responsibility of the Cultural Development Authority of King County (CDA). As part of the agreement, King County transferred the 2002 fund balance and related assets and liabilities of the Arts and Cultural Development Fund to the CDA effective January 1, 2003. Beginning in 2003, the Arts and Cultural Development Fund began serving as the clearing fund through which the county will transfer revenues to the CDA.

	Component Unit Total	Cultural Development Authority
Net Assets – December 31, 2002	\$ 866,410,752	\$ -
Cash transferred from King County Arts & Cultural Development Fund	9,201,744	9,201,744
Bonds payable transferred to CDA	<u>(6,025,432)</u>	<u>(6,025,432)</u>
Net Assets – January 1, 2003	<u>\$ 869,587,064</u>	<u>\$ 3,176,312</u>

Restricted Net Assets

Restricted expendable net assets – \$5,985,115 is restricted by RCW and King County ordinance for use for arts and heritage cultural program awards according to a specified formula.

Restricted nonexpendable net assets – \$6,088,666 is a long-term endowment funded from a portion of the hotel/motel tax pursuant to RCW 67.28.180.3(e) to finance future arts and heritage cultural programs.